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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000060

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TAGS: [ENRG](#) [ECON](#) [PREL](#) [PGOV](#) [BU](#)
SUBJECT: BULGARIA: INCREMENTAL SHIFTS IN ENERGY POLICY
TOWARD RUSSIA

REF: SOFIA 0045

Classified By: Ambassador Nancy McEldowney for reasons 1.4 (b) and (d).

¶1. (C) Summary: Traditionally Moscow's most ardent supporter, President Parvanov showed hints of a new attitude in his long planned visit to Moscow February 4-6. While there he presented Putin and Medvedev with a list of energy-related demands. When these were rebuffed, the President pushed back, stressing the "changed circumstances" in Bulgaria after the gas cut-off that left industry shuttered, homes cold, and the population irate -- at the government and Parvanov himself. While in Moscow the Bulgarian delegation resisted Russian pressure to sign a pre-shareholders agreement on South Stream, saying the time was not right and the deal was not ready. Meanwhile, other officials are increasingly outspoken on the need for diversification and transparency in the energy sector. Over 90 percent dependent on Russia for its gas, oil and nuclear fuel, Sofia can't afford to antagonize Moscow. But there are signs that the temperature of this once warm relationship is dropping. End Summary.

NO "GRAND SLAMS" THIS TIME

¶2. (C) President Parvanov, who bragged about signing a "grand slam" of energy deals with then President Putin in January 2008, only reluctantly traveled to Moscow February 4-6 to open the long-planned "Year of Bulgaria in Russia." Presidential Adviser Nikola Kolev told Ambassador privately that the President was concerned about the timing of the trip, coming on the heels of the unprecedented gas cut-off that left Bulgaria out in the cold. FM Kalfin told Ambassador February 9 that instead of focusing on the soft power aspects of the visit as originally planned, Parvanov presented Putin and President Medvedev with three demands: the end of Gazprom-linked gas intermediaries, compensation for the financial and "political" costs of the gas cut-off, and access to the Gazprom network for the gas Parvanov believes the Turkmen President promised to sell Bulgaria in December 2008. The Bulgarian delegation also refused to sign a South Stream pre-shareholders agreement, despite "intense" Russian pressure.

¶3. (C) Putin and Medvedev summarily rebuffed Parvanov's demands. According to Kalfin, who was in the meeting, Parvanov pushed back, citing "changed circumstances" in Bulgaria after the gas cut-off. Putin and Medvedev then reportedly showed some willingness to discuss the elimination of the Gazprom-linked intermediaries in upcoming long-term supply contact negotiations with the Bulgarian Energy Holding. When Parvanov mentioned Bulgaria's support for Nabucco, Putin reportedly responded, "You can play all you want with that little project, but I am buying all the Azeri gas and I'm prepared to pay twice as much as anyone else for

it."

A NEW INTEREST IN DIVERSIFICATION ...

¶4. (C) Burned by their overwhelming dependence on Russian gas during the gas crisis, the Bulgarians are now boldly pursuing gas diversification projects, including expansion of a gas storage facility, new connections with the Greek and Turkish gas systems, and an LNG terminal in Greece. On February 7, the head of Bulgaria's Energy Holding approached USTDA about the possibility of studying CNG shipments in the Black Sea as well as reversing the flow of the current gas connections with Turkey and Greece. The Energy Holding will also apply to take an equity stake in the Colorado-based Direct Petroleum's gas exploration project in north-central Bulgaria.

....AND TRANSPARENCY

¶5. (C) In the middle of the gas crisis, the Bulgarians began a dialog with the transparency organization EITI and other NGOs to shine a light on the country's gas transit industry. In the aftermath of the crisis, FM Kalfin, who is tasked with organizing the April 24-25 Sofia Energy Summit, has agreed in principle to use part of the conference to tackle issues that have plagued Bulgaria -- and neighboring transit states -- for years: the pressure to sign secretive, nontransparent energy deals and the use of Gazprom-linked intermediaries to implement those deals. Kalfin has agreed

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to try to persuade the gas transit countries in attendance to sign a statement of transit transparency principles at the April Summit.

COMMENT:

¶6. (C) Bulgaria will never be completely independent from Russia for its energy needs and it cannot afford to antagonize Moscow even as it chafes under Gazprom's heavy hand. But there is safety in numbers. Unification of transit countries on a set of transparency-focused principles would send a message of strength to Russia. It is a message Bulgaria -- long seen as Russia's closest ally in the EU -- seems increasingly interested in sending. But it can't do it on its own.

McEldowney